

ORANGE GROVE COMMUNITY
DEVELOPMENT DISTRICT

Annual Financial Statements

As of and for the Fiscal Year Ended June 30, 2010

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2/16/11



**ORANGE GROVE COMMUNITY
DEVELOPMENT DISTRICT**

Annual Financial Statements

As of and for the Fiscal Year Ended June 30, 2010

**Orange Grove Community Development District
Annual Financial Statements
As of and for the Fiscal Year Ended June 30, 2010
With Supplemental Information**

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CERTIFIED PUBLIC ACCOUNTANT
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Independent Auditor's Report on the Basic Financial Statements

Orange Grove Community Development District
11333 Juban Parc Avenue
Denham Springs, LA 70726

I have audited the accompanying financial statements of the governmental activities and each major fund of the Orange Grove Community Development District (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2010, and the respective changes in financial position as of and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 14, the District had negative net assets of \$1,034,014.38 and is dependent on District lot sales which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustment in the amount and classification of liabilities that might be necessary if the District is unable to meet its obligations as they come due.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 15, 2010, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an

audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 8 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying information listed as Other Supplemental Information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The Other Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sincerely,

BRANDY WESTCOTT, LLC



Brandy Westcott Garcia, CPA
Member

December 15, 2010

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Required Supplemental Information

Management's Discussion and Analysis

**Orange Grove Community Development District
Management's Discussion and Analysis (MD&A)
For the Year Ended June 30, 2010
(UNAUDITED)**

Our discussion and analysis of the Orange Grove Community Development District's (the "District") financial performance provides an overview of the District's financial activity for the year ended June 30, 2010. It should be read in conjunction with the basic financial statements.

FINANCIAL HIGHLIGHTS. Key financial highlights for the year ending June 30, 2010 include the following:

- The liabilities of the District exceeded its assets at June 30, 2010 by \$1,034,014.38 (negative net assets). The majority of this amount is related to the investment in capital assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

MD&A. The MD&A is intended to serve as an introduction to the District's basic financial statements which are the government-wide financial statements, the fund financial statements, and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements. These statements are designed by GASB Statement 34 to change the presentation of governmental financial statements. GASB Statement 34 provides readers with an "entity-wide" Statement of Net Assets and Statement of Activities. This gives the user of the financial statements a broad overview of the District's financial position and results of operations in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets less liabilities, which results in net assets. The statement is designed to display the financial position of the District. Over time, increases or decreases in net assets help determine whether financial position is improving or deteriorating.

The Statement of Activities provides information that shows how the District's net assets changed as a result of the year's activities. The statement uses accrual basis of accounting, similar to private-sector businesses. All changes in net assets are reported as soon as the underlying event giving rise to the revenue or expense occurs, regardless of when the cash is received or paid.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All the funds of the District are governmental type funds. Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Thus, the readers may get a better understanding of the long-term impact of the government's near-term financing decisions.

Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

Statement of Net Assets. The following table reflects the Statement of Net Assets as of June 30, 2010 and June 30, 2009. (Certain 2009 amounts have been restated as described in Note 15 and certain amounts have been reclassified to conform to the current year presentation.)

	<u>June 30, 2010</u>	<u>June 30, 2009</u> (Restated)
Assets		
Current Assets		
Cash & Cash Equivalents-Restricted	\$ 462,987.60	\$ 1,717,473.11
Investments-Restricted	<u>564,000.00</u>	<u>564,000.00</u>
Total Current Assets	<u>1,026,987.60</u>	<u>2,281,473.11</u>
Noncurrent Assets		
Assessment Receivable	5,126,760.00	5,126,760.00
Plant, Property and Equipment (Net)	3,441,525.91	2,525,114.53
Interest Receivable	4,418.00	4,418.00
Underwriter's Discount	126,551.75	137,556.25
Cost of Issuance	<u>123,526.62</u>	<u>134,268.07</u>
Total Noncurrent Assets	<u>8,822,782.28</u>	<u>7,928,116.85</u>
Total Assets	<u>9,849,769.88</u>	<u>10,209,589.96</u>
Liabilities		
Current Liabilities		
Interest Payable	<u>49,820.00</u>	<u>49,820.00</u>
Total Current Liabilities	<u>49,820.00</u>	<u>49,820.00</u>
Noncurrent Liabilities		
Professional Fees Payable	67,204.26	67,204.26
Deferred Revenue	5,126,760.00	5,126,760.00
Bonds Payable	<u>5,640,000.00</u>	<u>5,640,000.00</u>
Total Noncurrent Liabilities	<u>10,833,964.26</u>	<u>10,833,964.26</u>
Total Liabilities	<u>10,883,784.26</u>	<u>10,883,784.26</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	(976,739.20)	(616,199.92)
Restricted for Debt Service	-	-
Restricted for Capital Projects	-	-
Unrestricted	<u>(57,275.18)</u>	<u>(57,995.18)</u>
Total Net Assets	<u>\$ (1,034,014.38)</u>	<u>\$ (674,195.10)</u>

Assessments Receivable. June 30, 2009 assessments receivable balance has been restated to reflect a write down related to the 2008 Amendment No. 1 to the First Supplemental Trust Indenture (the "2008 Modification").

Capital Assets. The District's investment in capital assets, net of depreciation was \$3,441,525.91 at June 30, 2010. The increase relates to additions to capital assets in the current year less annual depreciation..

Long Term Debt. In 2006, the District issued \$8,465,000.00 Series 2006 Special Assessment Bonds to fund the construction, installation and acquisition of master infrastructure improvements within the District. At June 30, 2010 and 2009, the amount of these bonds payable was \$5,640,000. There were no principal payment in the current year. The total decrease from issuance primarily relates to a special bond redemption included in the 2008 Modification. The interest expense on the Bonds was \$298,920.00 during the year ended June 30, 2010 (see "Expenses" below).

Statement of Activities. The following table reflects the Statement of Activities for the years ended June 30, 2010 and June 30, 2009.

	2010	2009
Revenue - General		
Interest Earned	\$ 27,352.92	\$ 73,220.16
Other Assessments	-	-
Assessments On Lots	-	-
Total Revenues	<u>27,352.92</u>	<u>73,220.16</u>
Expenses		
Professional Fees	-	33,299.87
Depreciation Expense	66,507.05	56,160.66
Bond Interest	298,920.00	351,787.50
Bond Discount	11,004.50	11,004.50
Cost of Issuance	<u>10,741.45</u>	<u>10,741.45</u>
Total Expenses	<u>387,173.00</u>	<u>462,993.98</u>
Increase (Decrease) in Net Assets	(359,820.08)	(389,773.82)
Net Assets, Beginning of Year	(674,194.10)	(284,421.28)
Net Assets Prior Period Adjustment	-	-
Net Assets, End of Year	<u>\$ (1,034,014.18)</u>	<u>\$ (674,195.10)</u>

Revenue. Interest and dividend earnings on investments and money market accounts were \$27,352.92 and \$73,220.16 for the years 2010 and 2009, respectively. The decrease is related to decreased cash due to expending of construction funds.

Expenses. Depreciation expense was \$66,507.05 and \$56,160.66 for years 2010 and 2009 respectively. Interest on Bonds reflects the amounts paid to satisfy debt service interest. Interest on the Bonds decreased by \$52,867.50. The decrease relates to a decrease in principal outstanding during the prior year as a result of the 2008 Modification. Bond discount expense was \$11,004.50 in 2010 and 2009 while bond issuance cost was \$10,741.45 in 2010 and 2009.

Budgetary Highlights. The District adopted a budget for the year ended June 30, 2010. The actual revenues were \$528 higher than budgeted. Actual expenditures matched budgeted expenditures.

CURRENT AND EXPECTED CONDITIONS

The District's ability to early pay or make payments according to the redemption schedule is dependent on lot sales and on real estate demand locally as well as regionally and nationally. The residential housing market is undergoing a nationwide realignment and those adverse national trends have impacted the local real estate market creating uncertainty surrounding future effects on lot sales and the District's ability to meet its future obligations. The District's dependence on lot sales raises substantial doubt about its ability to continue as a going concern.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the District at 11333 Juban Parc Avenue, Denham Springs, LA 70726.

Basic Financial Statements

Government-Wide Financial Statements

Orange Grove Community Development District
Statement of Net Assets
June 30, 2010

Statement A

ASSETS

Current Assets

Cash and Cash Equivalents - Restricted	\$ 462,987.60
Investments - Restricted	<u>564,000.00</u>
Total Current Assets	<u>1,026,987.60</u>

Noncurrent Assets

Assessments Receivable	5,126,760.00
Plant, Property and Equipment (Net)	3,441,525.91
Interest Receivable	4,418.00
Underwriter's Discount	126,551.75
Cost of Issuance	<u>123,526.62</u>
Total Noncurrent Assets	<u>8,822,782.28</u>

Total Assets

9,849,769.88

LIABILITIES

Current Liabilities

Interest Payable on Bonds	<u>49,820.00</u>
Total Current Liabilities	<u>49,820.00</u>

Noncurrent Liabilities

Professional Fees Payable	67,204.26
Deferred Revenue	5,126,760.00
Bonds Payable	<u>5,640,000.00</u>
Total Noncurrent Liabilities	<u>10,833,964.26</u>

Total Liabilities

10,883,784.26

NET ASSETS

Net Assets

Invested In Capital Assets, Net of Related Debt	(976,739.20)
Net Assets Restricted For Capital Projects	-
Net Assets Restricted For Debt Service	-
Net Assets Unrestricted	<u>(57,275.18)</u>
Total Net Assets	<u>\$ (1,034,014.38)</u>

The accompanying notes are an integral part of these financial statements.

Orange Grove Community Development District
Statement of Activities
For the Year Ended June 30, 2010

Statement B

	<u>Expenses</u>	<u>Program Revenues Operating Grants</u>	<u>Net Revenue (Expense) and Changes in Net Assets Governmental Activities</u>
Expenses			
Governmental Activities -			
Bond Interest	\$ 298,920.00	\$ -	\$ 298,920.00
Cost of Issuance	10,741.45	-	10,741.45
Bond Discount	11,004.50	-	11,004.50
Depreciation Expense	66,507.05	-	66,507.05
Total Expenses	<u>387,173.00</u>	<u>-</u>	<u>387,173.00</u>
General Revenues			
Assessments on Lots			-
Other Assessments			-
Interest			<u>27,352.92</u>
Total General Revenues			<u>27,352.92</u>
Increase (Decrease) In Net Assets			<u>(359,820.08)</u>
Net Assets, Beginning of Year			<u>(674,194.10)</u>
Net Assets, End of Year			<u>\$ (1,034,014.18)</u>

The accompanying notes are an integral part of these financial statements.

Basic Financial Statements

Governmental Funds Financial Statements

Orange Grove Community Development District
Balance Sheet
Governmental Funds
June 30, 2010

Statement C

	Capital Projects	Debt Service	Total Governmental Funds
Assets			
Cash and Cash Equivalents - Restricted	\$ 441,486.96	\$ 21,500.64	\$ 462,987.60
Investments - Restricted	-	564,000.00	564,000.00
Assessments Receivable	-	5,126,760.00	5,126,760.00
Total Assets	<u>441,486.96</u>	<u>5,712,260.64</u>	<u>6,153,747.60</u>
Liabilities and Fund Balance			
Liabilities:			
Deferred Revenue	-	5,126,760.00	5,126,760.00
Total Liabilities	<u>-</u>	<u>5,126,760.00</u>	<u>5,126,760.00</u>
Fund Balance:			
Reserved For Debt Service	-	585,500.64	585,500.64
Reserved For Capital Projects	441,486.96	-	441,486.96
Unreserved	-	-	-
Total Fund Balances	<u>441,486.96</u>	<u>585,500.64</u>	<u>1,026,987.60</u>
Total Liabilities and Fund Balances	<u>\$ 441,486.96</u>	<u>\$ 5,712,260.64</u>	<u>\$ 6,153,747.60</u>

The accompanying notes are an integral part of these financial statements.

**Orange Grove Community Development District
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010**

Statement D

Total Fund Balances, Governmental Funds	\$ 1,026,987.60
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Capital assets used in Governmental Activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Governmental Capital Assets, Net of Accumulated Depreciation	3,441,525.91
Unamortized Cost of Issuance is recorded as current expenditures in governmental funds	123,526.62
Unamortized Underwriter's Discount is recorded as current expenditures in governmental funds	126,551.75
Interest Receivable on investments not recorded in governmental funds	4,418.00
Interest Payable on Bonds not recorded in governmental funds	(49,820.00)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:	
Professional Fees Payable	(67,204.26)
Bonds Payable	(5,640,000.00)
Net Assets, Governmental Activities	\$ <u>(1,034,014.38)</u>

The accompanying notes are an integral part of these financial statements.

Orange Grove Community Development District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Statement E

	Capital Projects	Debt Service	Total Governmental Funds
Revenues			
Assessments on Lots	\$ -	\$ -	\$ -
Other Assessments	-	-	-
Interest Earned	716.20	26,636.72	27,352.92
Total Revenues	<u>716.20</u>	<u>26,636.72</u>	<u>27,352.92</u>
Expenditures			
Current Expenditures:			
<i>Capital Outlay:</i>			
Capital Outlay	982,918.43	-	982,918.43
<i>Debt Service:</i>			
Principal	-	-	-
Interest	-	298,920.00	298,920.00
Total Expenditures	<u>982,918.43</u>	<u>298,920.00</u>	<u>1,281,838.43</u>
Excess Revenues Over Expenditures	<u>(982,202.23)</u>	<u>(272,283.28)</u>	<u>(1,254,485.51)</u>
Other Financing Sources			
Transfers In	-	624.10	624.10
Transfers Out	(624.10)	-	(624.10)
Bond Proceeds	-	-	-
Net Change In Fund Balance	<u>(982,826.33)</u>	<u>(271,659.18)</u>	<u>(1,254,485.51)</u>
Fund Balance, Beginning of Year	<u>1,424,313.29</u>	<u>857,159.82</u>	<u>2,281,473.11</u>
Fund Balance, End of Year	<u>\$ 441,486.96</u>	<u>\$ 585,500.64</u>	<u>\$ 1,026,987.60</u>

The accompanying notes are an integral part of these financial statements.

Orange Grove Community Development District
Reconciliation of the Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2010

Statement F

Total Net Change in Fund Balances, Governmental Funds **\$ (1,254,485.51)**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Capital Outlay is reported in governmental funds as an expenditure. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense.

These differences consist of:

Capital Outlay	982,918.43
Depreciation Expense	(66,507.05)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases noncurrent liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces long-term debt in the Statement of Net Assets.

These differences consist of:

Bond Proceeds	-
Principal on Bonds	-
Underwriter's Discount	(11,004.50)
Cost of Issuance	(10,741.45)

Some revenues reported in the Statement of Activities do not provide current financial resources and therefore are not reported as revenues in governmental funds. These differences consist of :

Interest Receivable	-
---------------------	---

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

These differences consist of :

Interest Payable on Bonds	-
Professional Fees Payable	-

Change in Net Assets, Governmental Activities **\$ (359,820.08)**

The accompanying notes are an integral part of these financial statements.

Basic Financial Statements

Notes to the Financial Statements

Orange Grove Community Development District
Notes to the Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

"Community Development District" or "District" means a special district as provided in Article VI, Section 19 of the Constitution of Louisiana, which is created pursuant to Chapter 27-B of Title 33 of the Louisiana Revised Statutes of 1950, as amended, specifically, La. R.S. 33:9039.11 through 33:9039.37, inclusive (the "Act") and limited to the performance of those specialized functions authorized by the Act, the boundaries of which are contained wholly within a single parish; the governing head of which is a body created, organized and constituted and authorized to function specifically as prescribed in the Act for the delivery of community development services; and the formation, powers, governing body, operation, duration, accountability, requirements for disclosure and termination of which are governed pursuant to the provisions of the Act.

A. Reporting Entity

Orange Grove Community Development District, Parish of Ascension, State of Louisiana (the "District") is a special district organized and existing under the provisions of the Act, and pursuant to an Ordinance duly adopted by the Council Members of the Ascension Parish Council, State of Louisiana, effective on August 10, 2006 (the "Ordinance"). The District is comprised of and includes all of the immovable property situated within the described boundaries of the District.

Pursuant to the provisions of the Act, the District is authorized to finance, fund, plan, establish, acquire construct or reconstruct, enlarge, extend, equip, operate and maintain systems, facilities and basic infrastructure for the following: 1) water management and control for the lands on the District, including the connection of some or any of such facilities with road and bridges; 2) water supply, sewer and wastewater management, reclamation and refuse or any combination thereof; 3) bridges or culverts that may be needed across any drain, ditch, canal, floodway, holding basin, excavation, public highway, tract, grade, fill or cut and roadways over levees and embankment; and 4) roads and streets in the District (the "project").

The District is authorized by the Act to levy and collect non-ad valorem special assessments against all immovable property situated in the District that is subject to assessment as a result of the project to finance, fund, plan, establish, acquire, construct or reconstruct, enlarge, extend, equip, operate and maintain systems, facilities and basic infrastructure for the District. The Board of Supervisors of the District (the "Board") exercise the powers granted to the District pursuant to the Act. The Board consists of five members; except as otherwise provided by the Act, each member holds the position for a term of four years and until a successor is chosen and qualifies. Two of the supervisors are elected officers of the District: Chairman and Secretary. The initial members of the Board were to be residents of the State of Louisiana, and at least one of the initial members was to be a resident of the area immediately adjacent to the District. Additionally, the initial members of the Board serve terms of six years after the initial appointment of members. The positions of each member whose term has expired is filled by a qualified elector of the District, or if there are no qualified electors of the District, a qualified elector of Ascension Parish who will be elected by the qualified electors of the District in accordance with Title 18 of the Louisiana Revised Statutes of 1950. However, if the District consists of a population of less than six hundred persons, the governing authority of the parish or municipality that created the District will appoint members of the Board.

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

Members of the Board are known as supervisors, and upon entering into office, take an oath of office. The supervisors hold office for the term for which they were elected or appointed and until their successors are chosen and qualified. If, during the term of office, a vacancy occurs, the remaining members of the Board will fill the vacancy by an appointment for the remainder of the unexpired term.

Each supervisor is entitled to receive for his or her services a per diem not to exceed seventy-five dollars per meeting, and such travel expenses as may be authorized in the bylaws of the District. A majority of the members of the Board constitutes a quorum for the purposes of conducting its business, exercising its powers and for all other purposes. Actions taken by the District are upon vote of a majority of the members present, unless general law or a rule of the District requires a greater number.

GASB Statement 14, The Reporting Entity, established criteria for determining reporting entity and component units that should be included within the reporting entity. Under the provisions of this Statement, the Orange Grove Community Development District is not considered a component unit of any other government and is reported as the primary government. Additionally, in applying the criteria of this statement, the District has no component units.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statements of Activities) report information on all of the nonfiduciary activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty-one days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

Grants and entitlements and interest associated with the current fiscal year are all considered susceptible to accrual, and as such, have been recognized as revenue of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The District has two governmental funds as follows:

Debt Service Fund - The Debt Service Fund accounts for the accumulation of financial resources for payment of interest and principal on the District's \$8,465,000 Special Assessments Revenue Bonds, Series 2006 (the "Bonds") (See "Restricted Assets" herein) (See Note 8).

Capital Projects Fund - The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items (See "Restricted Assets" herein).

Revenues and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty-one days of fiscal year-end. Under the modified accrual basis, only interest is considered to be both measurable and available at fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include: 1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; 2) matching requirements, in which the District must provide local resources to be used for a specific purpose; and 3) expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

Expenses/Expenditures

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

D. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

the date of acquisition. Cash received by the District is deposited into demand deposits and daily investment accounts. The District utilizes a financial institution to pay principal and interest on the Bonds as they become due and payable. For presentation in the financial statements, investments in money market accounts are considered to be cash equivalents.

E. Restricted Assets

Restricted assets are cash, cash equivalents and investments whose use is limited by legal requirements. Restricted cash, cash equivalents and investments represent amounts required by debt covenant to be segregated and restricted for final year debt payment and accrued interest on the Bonds. Restricted cash, cash equivalents and investments also represent special assessment proceeds required by debt agreement to be segregated and restricted for completion of the District's infrastructure projects. Pursuant to the Master Trust Indenture dated as of November 1, 2006 and the First Supplemental Indenture dated as of November 1, 2006 and amended October 15, 2008, each by and between the District and Regions Bank, as trustee (the "Trustee"), the Trustee has established funds and accounts for the following purposes:

- a) *Debt Service Fund*- A fund consisting of amounts deposited by the Trustee with respect to the Bonds. Within the Fund is established the Interest Account and Principal Account.
- b) *Interest Account*- An account used to transfer funds to pay interest payments. Within the Interest Account is the Capitalized Interest Subaccount.
- c) *Capitalized Interest Subaccount*- An account used to fund bond interest during the construction period prior to completion of the project.
- d) *Principal Account*- An account used to transfer funds to pay principal payments.
- e) *Debt Service Reserve Fund*- An account funded from bond proceeds used to replenish the Interest and Principal Accounts in case of deficiency, or to pay debt service if no other money is lawfully available (i.e. insurance proceeds).
- f) *Acquisition and Construction Fund*- A fund where bond proceeds are deposited. Payments are to be made for any unpaid issuance cost and cost of planning, financing, acquisition, construction, reconstruction, equipping and installation of the project. Before any disbursements are made from this fund, the District must file with the Trustee a fully executed requisition.
- g) *Revenue Fund*- An account into which special assessments are deposited. These special assessments are not the prepayments which are deposited into the Prepayment Account.
- h) *Rebate Fund*- An account used to make all rebate payments to the United States of America pursuant to the Arbitrage Rebate Covenants related to the Bonds.

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

- i) *Bond Redemption Fund-* A fund into which all funds from special assessments and any excess moneys remaining in the Acquisition and Construction Fund after completion of the project are deposited. Within this fund is the Prepayment Account and the General Account.
- j) *Prepayment Account-* An account into which prepaid assessments are deposited.
- k) *General Account-* An account into which all Bond Redemption Fund monies are deposited and transferred out according to their ultimate use. Additionally, an account into which proceeds are deposited from condemnation, sale, damage or destruction of property not to be rebuilt or restored.
- l) *Administration Account-* An account into which 1% of the prepaid assessments are deposited and used to fund annual and ongoing expenses associated with the bond issue.

The Trustee has established the above referenced accounts and the use of the amounts deposited therein is restricted as set forth in the Indenture. The year end balances in these accounts are as follows

2006 Bond Issue

Debt Service Reserve Fund	\$	577,254.00
Principal Account		-
Interest Account		8,205.66
Rebate Fund		-
Revenue Fund		-
Acquisition and Construction Fund		441,486.96
Capitalized Interest Account		2.76
Administration Account		-
General Account		-
Prepayment Account		38.22
Total 2006 Bond Issue	\$	<u>1,026,987.60</u>

Debt Service Reserve Requirement

Bond Issue	Date	Requirement	Amount
2006	06/30/2010	\$ 564,000.00	\$ 577,254.00

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

F. Interfund Transaction

All interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

G. Capital Assets

General capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Improvements are capitalized while the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated</u>
Land	N/A
Roads and Streets	40
Sewer and Drainage Systems	25

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as contributions awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available.

I. Net Assets

Net assets present the difference between assets and liabilities in the Statement of Net Assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the Act, the Indenture or external restrictions by creditors, grantors or laws or regulations of other governments.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from these estimates.

K. Assessment Methodology

The District used an Assessment Methodology Consultant, District Manager Inc., to determine and establish the special assessment (or benefit special assessment) that was assessed against all assessable property in the District (see also Note 4). The consultant determined that the assessments would be an amount sufficient to provide for the cost of all infrastructure and common improvements, capitalized and accrued interest, on-going district management and legal counsel and issuance costs on the Bonds issued to finance

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

the infrastructure and common improvements to be acquired. All assessable property in the District benefits in the same manner from the use of the infrastructure and common improvements, and as such, all such property was assessed utilizing the same method. The benefitted assessment cost allocation was derived by calculating the value of the infrastructure and common improvements throughout the District, based on estimated (appraised) value of lots, for all assessable properties in the District, and applying a factor weighted to each lot's appraised value in an amount sufficient to cover the costs outlined above.

This methodology, which was used to establish and determine the benefit special assessments that pay the cost of the project, has been presented to and approved by the Board of the District, and is set forth in the Allocation of Infrastructure Cost & Assessment Methodology Report prepared by District Manager, Inc.

L. Prepaid Items

Prepaid items reflect items that have been paid that benefit future periods.

M. Special Bond Provisions

The Board of the District duly adopted a resolution on October 6, 2006, (the "Initial Resolution") authorizing the issuance of not exceeding \$8,570,000.00 aggregate principal amount of its Special Assessment Bonds, 2006 Series Bonds, in order to pay all or a portion of the design, acquisition and construction costs of certain infrastructure improvements from time to time constructed, established, or installed in the District, for the District. Pursuant to the Master Trust Indenture dated as of November 1, 2006 and the First Supplemental Indenture dated as of November 1, 2006 (together with the Master Trust Indenture, the "Indenture"), the District issued its Special Assessment Bonds, Series 2006 (the "Bonds") in aggregate amount of \$8,570,000.

The Bonds are limited obligations of the District payable solely from and secured by the pledge and assignment of and lien upon the pledged revenues pursuant to the Indenture and neither the property, the full faith and credit, nor the taxing power of the District, the Parish of Ascension, the State of Louisiana, or any political subdivision thereof, is pledged as security for the payment of the Bonds, except that the District is obligated under the Indenture and the Act to levy and to evidence and certify, or cause to be certified, for collection, special assessments to secure and pay the Bonds. The Bonds do not constitute an indebtedness of the District, Ascension Parish, the State of Louisiana, or any political subdivision thereof within the meaning of any constitutional or statutory provision or limitation.

The Bonds authorized under the Indenture and the obligation evidenced thereby does not constitute a lien upon any property of the District, including, without limitation, the project or any portion thereof in respect to which such Bonds were issued, or any part thereof, but does constitute a lien only on the pledged revenues as set forth in the Indenture. Nothing in the Bonds authorized under the Indenture should be construed as obligating the District to pay the Bonds or the redemption price thereof or the interest thereon except from the pledged revenues, or as pledging the faith and credit of the District, the Parish or the State of Louisiana or any political subdivision thereof, or as obligating the District, the Parish of or the State of Louisiana or any of its political subdivisions, directly or indirectly or contingently, to levy (except for the special assessments levied by the District) or to pledge any form of taxation.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a special district, the District is subject to various state laws and regulations. The District complies with all state laws and regulations including those requiring the use of separate funds.

3. CASH AND INVESTMENTS

The District is authorized to make direct investments of money, within funds and accounts established by the Indenture, in United States government bonds, treasury notes, treasury bills or certificates, or time certificates of deposit of state banks organized under the laws of Louisiana and national banks having their principal office in the state of Louisiana or any other federally insured investment, or guaranteed investment contracts issued by a financial institution having one of the two highest rating categories or in mutual or trust fund institutions which are registered with the SEC and which have underlying investments consisting solely of and limited to securities of the government or its agencies. The types of permitted investments for a special district constituting a political subdivision of the State of Louisiana are more fully set forth in the Louisiana Revised Statutes.

The District's deposits at June 30, 2010 are all classified as cash equivalents as described in Note 1 and investments as described below. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit. These securities are held by and in the name of the pledging fiscal agent bank or in a holding or custodial bank that is mutually acceptable to both parties. Under state law, deposits held in a separate trust account are not required to have pledged securities in the name of the government; however the bank must deposit with an unaffiliated bank pledged securities to cover the deposits held in trust.

The District's investment balance relates to a guaranteed investment contract entered into by Regions Bank (the "Buyer"), as the District's Trustee, and Hypo Public Finance Bank (the "Seller") in 2006. The investments are recorded at cost which approximates market value.

The repurchase investment contract with the Seller was for an initial deposit of \$5,881,497.80 to the Construction Fund, \$248,353.13 to the Initial Capitalized Interest Fund and \$846,500.00 to the Initial Debt Service Fund with a 4.70% rate of earnings per annum. The Buyer's Margin Percentage is 102% of repurchase Price for Treasuries and 102% of repurchase Price for Agencies. The permitted securities are: a) direct obligations of or obligations of the timely payment of principal and interest which are unconditionally guaranteed by the United States ("Treasuries"); and b) senior debt obligations of FNMA, FHLB or FFCB or obligations of agencies or instrumentalities of the United States government issued by or on behalf of such agencies or instrumentalities or mortgage pass through obligations of any such agencies or instrumentalities ("Agencies").

This agreement terminates at the first occurrence of: 1) respective funds maturity date; 2) the date of any termination pursuant to the "Rating Downgrade" provisions within the agreement; 3) the date of any termination pursuant to the events of default per the agreement; or 4) such date that all securities have been repurchased.

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

This agreement matured on November 1, 2007 with respect to the Capitalized Interest Fund, and the Construction and Acquisition fund matured on December 31, 2007. The Debt Service Reserve Fund will mature on November 1, 2021.

Price Differential Payment dates are one business day prior to each May 1 and November 1, with respect to the Debt Service Reserve Fund.

The District's investments (excluding cash and cash equivalents) at June 30, 2010 are summarized as follows:

Investment	Maturity Year	10-15 Years to Maturity
Repurchase Agreement - Debt Service Reserve	2021	\$ 564,000.00
Total		<u>\$ 564,000.00</u>

Custodial Credit Risk, as it relates to cash deposits, is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

Custodial Credit Risk, as it relates to investments, is the risk that in the event of failure of the counterparty to a transaction (the Seller), the government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2010, none of the District's deposits were exposed to custodial credit risk because they were either insured by the Federal Deposit Insurance Corporation or they were held in a bank trust department where state law requires the bank's trust department to deposit securities with an unaffiliated bank that is equal to the amount held in trust.

As of June 30, 2010, the District's investments were exposed to credit concentration risk.

4. BENEFIT SPECIAL ASSESSMENTS AND MAINTENANCE SPECIAL ASSESSMENTS

A. Benefit Special Assessments

The District's Special Assessments are a type of non-ad valorem benefit special assessments levied against assessable property within the boundaries of the District's lands based upon the special benefit to accrue to such property as a result of the implementation of the project (See Note 1). Non-ad valorem assessments are not based upon millage and can become a lien against homestead property as permitted under the provisions of the Act.

The term "Special Assessment" means the net proceeds derived from the levy and collection of "benefit special assessments", as provided for in La. R.S. 33:9039.29 (A) of the Act (except for any such special assessments levied and collected for maintenance purposes), against the lands located within the District that are subject to assessments regarding the project or any portion thereof. These assessments may be due and collected during each year that parish taxes are due and collected, in which case, such annual installment and levy shall be evidenced and certified to the assessor by the Board not later than August 31, of each year. Such assessment shall be entered by the assessor on the parish tax rolls, and shall be collected and enforced by the tax collector in the same manner and at the same time as parish taxes; the proceeds thereof shall be paid to the District. As

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

allowed by the Act, the Board has opted to collect its own assessments and does not utilize the parish assessor or tax collector. Additionally, at the time of the sale of land located in the District that is subject to assessment, the Developer shall cause the purchaser of the property to prepay the special assessment and extinguish the lien upon the property to be acquired by paying to the District, on the date of the sale, the entire amount of the assessment. The amount of the assessment will be sent to the Trustee who will deposit it into the appropriate Prepayment Account.

The benefit special assessments include:

- a) Acquisition Prepayments (Assessments on Lots) - Payment made by the developer from the proceeds of the lot sales in the amount of the special assessments imposed and due pursuant to the provisions of the Board resolution levying and imposing benefit special assessments on the District lands to pay principal of the Bonds;
- b) Annual Benefit Special Assessments - Net proceeds derived from levying, imposing and collecting benefit special assessments against assessable property annually, if necessary, with respect to the project;
- c) Periodic Benefit Special Assessments - Assessments levied, imposed and collected by the District semi-annually to pay the interest on the Bonds, based on the next interest payment date; and
- d) Other Benefit Special Assessments - Any other benefit assessments levied, imposed and collected by the District related to the project or the Bonds.

Acquisition Prepayments collected during the year ended June 30, 2010 totaled \$-0-. There were no Annual, Periodic or Other Benefit Special Assessments for the year ended June 30, 2010.

B. Maintenance Special Assessment

Maintenance Special Assessments are assessments levied, ordered and collected for maintenance purposes. There were no Maintenance Special Assessments levied for the year ended June 30, 2010.

C. Enforcement of Lien Nonpayment

Collection of Special Assessments levied will be enforceable in the manner provided by law, particularly the provisions of Sections 9039.29 and 9039.30 of the Act. Special Assessments constitute a lien on the property until such Special Assessments are paid and shall be on parity with the lien of state, parish, municipal and school board taxes. Such Special Assessments are a lien in favor of the District arising under RS 33:9039.30 and may be enforced by the District in a court of competent jurisdiction as provided in the Act and other laws of the State. Such proceedings may be brought at any time after the expiration of one year from the date any tax, or installment thereof, becomes delinquent.

5. ASSESSMENTS RECEIVABLE

The Acquisition Prepayment Assessments for the Bonds were \$7,694,685.00. This represents the bond par value of \$8,465,000.00 less the amount for the original debt service reserve of \$846,500.00 plus an administrative fee of \$76,185.00.

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

The assessments have been accounted for in assessments receivable and deferred revenue. At the time the assessments are prepaid, the amount in the corresponding accounts are reduced by the prepayment.

The amount in assessments receivable at the end of June 30, 2010 is as follows:

2006 Bond Issue	
Reported balance at June 30, 2009	\$ 7,569,685.15
Modification Reduction	2,442,925.15 *
Paid in the year ended June 30, 2010	-
Balance at June 30, 2010	<u>\$ 5,126,760.00</u>

* On October 15, 2008, the Bondholders agreed to and authorized an amendment to the development plan and Amendment No. 1 to the First Supplemental Trust Indenture (together with the amendment to development plan, the "2008 Modification") which provided for: 1) a reduction in the size and scope of the project from 349 lots to 31 lots (the "Modified 2006 Project"); 2) a special partial redemption of the Bonds in an aggregate principal amount of \$2,700,000.00; and, 3) a reduction of \$282,500.00 in the Debt Service Reserve Fund. The present intent of the District is to preserve the current assessment methodology to the extent that the Bonds are outstanding. However, under the current state law in which the District operates, benefit assessments are limited, in total, to the amount necessary to finance District facilities and projects under bonds issued. While the assessments placed on each lot remains unchanged by this modification, the assessments receivable balance carried for financial reporting purposes has been reduced to reflect the estimated cost of financing the Modified 2006 Project less previous assessments fully collected on properties included in the Modified 2006 Project.

6. CAPITAL ASSETS

A summary of changes in capital assets is as follows:

	Balance at 06/30/2009	Increases	Decreases	Balance at 06/30/2010
Capital Assets Not Being Depreciated:				
Land for Infrastructure	\$ 974,767.00	\$ -	\$ -	\$ 974,767.00
Total Capital Assets Not Being Depreciated	<u>974,767.00</u>	<u>-</u>	<u>-</u>	<u>974,767.00</u>
Capital Assets Being Depreciated:				
Streets and Roads	540,588.28	399,812.14	-	940,400.42
Drainage System	724,006.85	327,683.22	-	1,051,690.07
Sewer System	232,557.86	104,418.21	-	336,976.07
Sewer Treatment Plant	194,799.34	151,004.86	-	345,804.20
Total Capital Assets Being Depreciated	<u>1,691,952.33</u>	<u>982,918.43</u>	<u>-</u>	<u>2,674,870.76</u>
Less: Accumulated Depreciation For:				
Streets and Roads	(26,005.23)	(15,595.93)	-	(41,601.16)
Drainage Systems	(76,800.10)	(31,689.47)	-	(108,489.57)
Sewer System	(23,791.82)	(10,171.99)	-	(33,963.81)

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

Sewer Treatment Plant	<u>(15,007.65)</u>	<u>(9,049.66)</u>	<u>-</u>	<u>(24,057.31)</u>
Total Accumulated Depreciation	<u>(141,604.80)</u>	<u>(66,507.05)</u>	<u>-</u>	<u>(208,111.85)</u>
Capital Assets Being Depreciated, Net	<u>1,550,347.53</u>	<u>916,411.38</u>	<u>-</u>	<u>2,466,758.91</u>
Total Capital Assets, Net	<u>\$ 2,525,114.53</u>	<u>\$ 916,411.38</u>	<u>\$ -</u>	<u>\$ 3,441,525.91</u>

7. BOND ISSUE AND BOND DISCOUNT COSTS

Bond issuance and discount cost are amortized over the life of the Bonds using the straight-line method. The changes in bond issuance and discounts are as follows:

Cost of Issuance

	Balance at 06/30/2009	Additions	Deletions	Balance at 06/30/2010
2006 Bond Issue	\$ 145,009.52	\$ -	\$ -	\$ 145,009.52
Less: Amortization	<u>(10,741.45)</u>	<u>(10,741.45)</u>	<u>-</u>	<u>(21,482.90)</u>
Total	<u>\$ 134,268.07</u>	<u>\$ (10,741.45)</u>	<u>\$ -</u>	<u>\$ 123,526.62</u>

Bond Discount

	Balance at 06/30/2009	Additions	Deletions	Balance at 06/30/2010
2006 Bond Issue	\$ 148,560.75	\$ -	\$ -	\$ 148,560.75
Less: Amortization	<u>(11,004.50)</u>	<u>(11,004.50)</u>	<u>-</u>	<u>(22,009.00)</u>
Total	<u>\$ 137,556.25</u>	<u>\$ (11,004.50)</u>	<u>\$ -</u>	<u>\$ 126,551.75</u>

8. LONG-TERM OBLIGATIONS

The Board duly adopted on October 6, 2006, the Initial Resolution authorizing the issuance of the Bonds, in order to pay all or a portion of the design, acquisition and construction costs of the project. The Bonds were issued pursuant to the Act and the Indenture.

The Bonds are collateralized by the pledged revenues of special assessments levied against the benefitted property. The District is not obligated in any manner for the special assessment debt.

The Bonds were issued as a single term bond that bears interest and matures in principal amount on November 1 as set forth below, subject to the right of prior redemption in accordance with their terms:

Fiscal Year	Principal Amount	Interest
2012	\$ 170,000.00	5.3%
2013	180,000.00	5.3%

Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010

2014	190,000.00	5.3%
2015	200,000.00	5.3%
2016	210,000.00	5.3%
2017	220,000.00	5.3%
2018	230,000.00	5.3%
2019	245,000.00	5.3%
2020	255,000.00	5.3%
2021	270,000.00	5.3%
2022**	6,295,000.00	5.3%

** Final Maturity

On October 15, 2008, the Bondholders authorized a modification and amendment in the development plan and an amendment to the First Supplemental Trust Indenture whereby the District: 1) reduced the size and scope of the project from 349 lots to 31 lots; 2) extended the development time line for completion of the remaining 318 lots and related infrastructure; 3) provided for a special partial redemption of the Bonds in the aggregate principal amount of \$2,700,000 (which reduced the final maturity payment); and 5) reduced the Debt Service Reserve Fund by \$282,500 to provide a portion of the funds required to make the special partial redemption of the Bonds.

There were no changes in the District's long-term obligations during the current year.

Futures requirements on the District's long-term obligations are as follows:

Future Requirements 2006 Bond Issue

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ -	\$ 298,920.00	\$ 298,920.00
2012	170,000.00	294,415.00	464,415.00
2013	180,000.00	285,140.00	465,140.00
2014	190,000.00	275,335.00	465,335.00
2015	200,000.00	265,000.00	465,000.00
2016-2010	1,160,000.00	1,150,895.00	2,310,895.00
2021-2020	<u>3,740,000.00</u>	<u>283,020.00</u>	<u>4,023,020.00</u>
Total	<u>\$ 5,640,000.00</u>	<u>\$ 2,852,725.00</u>	<u>\$ 8,492,725.00</u>

The Professional Fees Payable of \$67,204.26 represents incurred legal fees payable from monies available in the Administrative Account per the First Supplemental Trust Indenture. The balance in the Administrative account is \$-0- at June 30, 2010.

9. CONSTRUCTION COMMITMENTS

The District has no outstanding contracts for professional and contract services as of June 30, 2010.

**Orange Grove Community Development District
Notes to the Financial Statements (continued)
June 30, 2010**

10. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, damage to and theft or destruction of assets, errors and omissions and natural disaster. During the year ending June 30, 2010, the District carried insurance to mitigate these risks.

11. RELATED PARTIES

Certain Board members are employees of the Developer of the project.

12. CONTINGENCIES

As of June 30, 2010, the District did not have any pending litigation or potential nondisclosed liabilities that management believes would have a material effect on the financial statements.

13. PER DIEM PAID TO BOARD MEMBERS

Board Members of the District did not receive any per diem payments for the year ending June 30, 2010.

14. NEGATIVE NET ASSETS

The District had negative net assets (liabilities exceed assets) of \$1,034,014.38 as of June 30, 2010. The District's ability to early pay or make payments according to the redemption schedule is dependent on lot sales and on real estate demand locally as well as regionally and nationally. The residential housing market's adverse national trends have impacted the local real estate market creating uncertainty surrounding lot sales and the District's ability to meet its future obligations. The District's dependence on lot sales raises substantial doubt about its ability to continue as a going concern.

15. PRIOR PERIOD ADJUSTMENT

As fully described in Note 5, the District reduced the Assessments Receivable and related Deferred Liability by \$2,442,925.15 related to the 2008 Modification. Such write down occurred in the current fiscal year, but had no impact on Net Assets of the District.

16. SUBSEQUENT EVENTS

On November 2, 2010 a "Notice of Deficiency" was received from the Trustee relating to a deficiency in the Debt Service Reserve Fund for the District's Series 2006 Bonds. This deficiency was created by the payment of \$141,248.93 from the Debt Service Reserve Fund for interest due on November 1, 2010. Such amount has not been replenished to date due to lack of funds related to the economic dependency described in Note 14 above. The Board is currently in discussions with the Bondholders in an attempt to negotiate a possible settlement. The eventual outcome of such discussions is uncertain and there have been no adjustments to amounts in the financial statements related to this matter.

Subsequent events have been evaluated by the management of the District through December 15, 2010.

Other Supplemental Information

Orange Grove Community Development District
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2010

Schedule 1

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts: GAAP Basis	Final Budget: Favorable (Unfavorable)
Revenues				
Interest	\$ 29,000	\$ 26,825	\$ 27,353	\$ 528
Assessments On Lots	-	-	-	-
Other Assessments	298,920	-	-	-
Total Revenues	<u>327,920</u>	<u>26,825</u>	<u>27,353</u>	<u>528</u>
Expenditures				
<i>Capital Outlay:</i>				
Capital Outlay	1,400,000	982,918	982,918	-
<i>Debt Service:</i>				
Principal	-	-	-	-
Interest	298,920	298,920	298,920	-
Total Expenditures	<u>1,698,920</u>	<u>1,281,838</u>	<u>1,281,838</u>	<u>-</u>
Excess Revenues Over Expenditures	<u>(1,371,000)</u>	<u>(1,255,013)</u>	<u>(1,254,485)</u>	<u>528</u>
Net Change In Fund Balance	<u>(1,371,000)</u>	<u>(1,255,013)</u>	<u>(1,254,485)</u>	
Fund Balance, Beginning of Year	<u>2,281,351</u>	<u>2,281,473</u>	<u>2,281,473</u>	
Fund Balance, End of Year	<u>\$ 910,351</u>	<u>\$ 1,026,460</u>	<u>\$ 1,026,988</u>	

See independent auditor's report.

Orange Grove Community Development District
Notes to the Budget
June 30, 2010

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Master Trust Indenture between the District and Regions Bank as Trustee, Section 9.18, requires that "On or before the first day of each Fiscal Year... the Issuer shall adopt a final Annual Budget with respect to each Project for such Fiscal Year for the payment of anticipated operating and maintenance expense and shall supply a copy of such budget promptly upon the approval thereof to the Trustee and to any Bondholders who shall have so requested in writing and shall have filed their names and addresses with the Secretary of the Board for such purpose." Additionally, "the Issuer, at any time, may amend the Annual Budget for the remainder of the current fiscal year..."

On June 23, 2009, the District adopted a budget for the fiscal year ended June 30, 2010 and on June 24, 2010, the District amended that budget.

The budget statement includes the transactions of all the governmental funds (Capital Projects Fund and Debt Service Fund).



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Orange Grove Community Development District
11333 Juban Parc Avenue
Denham Springs, LA 70726**

I have audited the financial statements of the governmental activities and each major fund of the Orange Grove Community Development District (the "District"), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued my report thereon dated December 15, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not

express such an opinion. The results of my tests disclosed three instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are reported on the accompanying Schedule of Findings and Questioned Costs as Findings 2010-1 through 2010-3.

The District's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the District's responses and, accordingly, I express no opinion on them.

This report is intended solely for the information and use of management, the District's Board of Directors, others within the entity, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Sincerely,

BRANDY WESTCOTT, LLC



Brandy Westcott Garcia, CPA

Member

December 15, 2010

**Orange Grove Community Development District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010**

I have audited the basic financial statements of the Orange Grove Community Development District, as of and for the year ended June 30, 2010, and have issued my report thereon dated December 15, 2010. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of June 30, 2010, resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

a. *Report on Internal Control and Compliance Material to the Financial Statements*

Internal Control

Material Weaknesses ☐ Yes ☒ No Significant Deficiencies ☐ Yes ☒ No

Compliance

Compliance Material to Financial Statements ☒ Yes ☐ No

b. *Federal Awards* ☒ Not Applicable

Internal Control

Material Weaknesses ☐ Yes ☐ No Significant Deficiencies ☐ Yes ☐ No

Type of Opinion On Compliance Unqualified ☐ Qualified ☐

For Major Programs Disclaimer ☐ Adverse ☐

Are there findings required to be reported in accordance with Circular A-133, Section .510(a)?

☐ Yes ☐ No

Was a management letter issued? ☐ Yes ☒ No

c. *Identification of Major Programs:*

CFDA Number(s)

Name of Federal Program (or Cluster)

Dollar threshold used to distinguish between Type A and Type B Programs: \$ _____

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133? ☐ Yes ☐ No

Section II Financial Statement Findings

Finding 2010-1 Debt Service Reserve Fund Deficiency (Noncompliance)

Criteria: Section 6.05 of the Master Trust Indenture requires a Debt Service Reserve Account be established and separately held by the Trustee in a specific amount established in the Supplemental Trust Indenture (as modified in the 2008 Modification). If the Debt Service Reserve Account funds are used to make debt service payments in accordance with Section 6.05 of the Master Trust Indenture, the Debt Service Reserve Account is to be replenished within 90 days of the withdrawal. Section 10.02 of the Master Trust Indenture requires that when the Debt Service Reserve Account balance falls below the Debt Service Reserve Requirement, the balance is to be restored above the Debt Service Reserve Requirement within 30 days.

Condition: The Debt Service Reserve Account became deficient on November 1, 2010 and was not replenished within 30 days.

Cause: A portion of the November 1, 2010 interest payment was made from funds in the Debt Service Reserve Account which caused the account balance to fall below the Debt Service Reserve Requirement. The payment was made from the Debt Service Reserve Account due to lack of funds and failure to levy Periodic Benefit Assessments in an amount sufficient to make the interest payment (See Finding 2010-2). The Debt Service Reserve Account was not replenished within 30 days due to lack of funds.

Effect: Failure to restore the funds withdrawn from the Debt Service Reserve Account within 30 days of withdrawal constitutes default under the Master Trust Indenture.

Recommendation: The Board should levy Periodic Benefit Assessments for payment of interest in enough time to make the required payments.

Management's Response: The Board anticipated that the interest would be paid by the Developer and the subsequent default would be resolved. This has not occurred to date. However, ongoing discussions with the Bondholders will hopefully resolve this matter.

Finding 2010-2 Failure to Levy Periodic Benefit Special Assessments (Noncompliance)

Criteria: Section 6.01 of the Master Trust Indenture requires the District to levy special assessments to the extent and in an amount sufficient to pay Debt Service Requirements (including interest payments) on all outstanding Bonds. Section 9.04 of the Master Trust Indenture states that if the District is unable to collect special assessments through the use of the tax collector, then the District may elect to collect and enforce special assessments in any available method under the Act. The District does not use the tax collector and instead assesses and enforces its special assessments.

Condition: The District failed to levy the required Periodic Benefit Special Assessments in order to pay the debt service requirements outlined in Finding 2010-1 above.

Cause: The District maintains that assessments were not levied in an amount sufficient to pay the October 1, 2010 interest payment due to anticipated Developer payment of the amount.

Effect: Failure to levy assessments is a violation of the Indenture.

Recommendation: The Board should levy Periodic Benefit Special Assessments for payment of interest in enough time to make such payments.

Management's Response: The Board anticipated that the interest would be paid by the Developer and the subsequent default would be resolved. This has not occurred to date. However, ongoing

discussions with the Bondholders will hopefully resolve this matter.

Finding 2010-3 Compliance Questionnaire (Noncompliance)

Criteria: LA RS 24:513A(5)a requires audits submitted to the Legislative Auditor to be performed in accordance with the *Louisiana Governmental Audit Guide*. The *Louisiana Governmental Audit Guide* requires that the government complete, adopt and provide to the auditor, the appropriate compliance questionnaire at the beginning of the audit. The cover letter from the Legislative Auditor attached to the compliance questionnaire requires that the questionnaire be adopted by the governing board by means of a formal resolution, which is also to be provided to the auditor at the beginning of the audit.

Condition: The appropriate compliance questionnaire was signed by members of the Board of Supervisors and submitted to the auditor at the start of the audit. However, the District failed to provide evidence of a formal resolution adopting the compliance questionnaire at the start of the audit.

Cause: The resolution for adopting the Compliance Questionnaire was advertised as part of the June 2010 meeting agenda, but completed minutes or resolutions were not available at the start of the audit.

Effect: The District is not compliant with the above referenced Revised Louisiana Statute.

Recommendation: The Board should adopt the appropriate compliance questionnaire through formal resolution and provide such questionnaire and resolution to the auditor at the start of the audit.

Management's Response: The Board signed the compliance questionnaire timely and adopted it through resolution. In future years, acceptance of the questionnaire will be included in meeting minutes provided to the auditor.

Section III Federal Award Findings and Questioned Costs

No Section III Findings.

**Orange Grove Community Development District
Schedule of Prior Year Findings and Questioned Costs
For The Year Ended June 30, 2010**

Section I Internal Control and Compliance Material to the Financial Statements

2009-1 Timely Issuance of Audit

The audit of the year ended June 30, 2009 should have been completed and issued by December 31, 2009. The audit was issued subsequent to this deadline. The District should complete and issue the audit within the statutory requirements.

Current Year Status: The current year audit began earlier to ensure timely completion and submission.

2009-2 Adoption of Compliance Questionnaire

The *Louisiana Governmental Audit Guide* requires that all entities subject to the audit requirements of LRS 24:513 must prepare and adopt a prescribed compliance questionnaire. The Orange Grove Community Development District Board did not complete nor adopt the required questionnaire.

Current Year Status: The Board completed, signed and provided the prescribed questionnaire to the auditor for the current fiscal year. However, the Board failed to provide evidence of a formal resolution. As such, finding partially repeated in current year. See Finding 2010-3.

Section II Internal Control and Compliance Material to Federal Awards

No Section II Findings.

Section III Management Letter

No Section III Findings.

This schedule was prepared by management.



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To the Board of Supervisors of
Orange Grove Community Development District

I have audited the financial statements of the governmental activities and each major fund of Orange Grove Community Development District (the "District"), for the year ended June 30, 2010, and have issued my report thereon dated December 15, 2010. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. Professional standards also require that I communicate to you the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated April 15, 2010, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with my oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

As a part of my audit, I considered the District's internal control over financial reporting. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As a part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

My responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

I am responsible for communicating significant matters related to the audit that are, in my professional judgment, relevant to my responsibilities in overseeing the financial reporting process. However, I am not required to design procedures specifically to identify such matters.

My responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report. I do not have an obligation to perform any procedures to corroborate other information contained in these documents, such as Management's Discussion and Analysis and supplementary budgetary statements.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you

in my Entrance Memorandum about planning matters on August 10, 2010.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense and useful life of capital assets is based on policy guidelines. I evaluated the key factors and assumptions used to develop the capital asset policy in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of Assessment Methodology in Note 1 to the financial statements.

The disclosure of Benefit Special Assessments and Maintenance Special Assessments in Note 4 to the financial statements.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There was one uncorrected misstatement identified in the course of my audit that would have a net effect of \$2,470.37 (decrease) to the current year Change in Net Assets and Ending Net Assets. Management has determined that the effect of this misstatement is immaterial to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated December 15, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

The District's ability to early pay or make payments according to the redemption schedule is dependent on lot sales and on real estate demand locally as well as regionally and nationally. The residential housing market is undergoing a nationwide realignment and those adverse national trends have impacted the local real estate market creating uncertainty surrounding future effects on lot sales and the District's ability to meet its future obligations. The District's dependence on lot sales raises substantial doubt about its ability to continue as a going concern.

During procedures described in the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, I identified instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are reported in the Schedule of Findings and Questioned Costs as Findings 2010-1 through 2010-3.

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the members of the Board of Supervisors of Orange Grove Community Development District and its management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

BRANDY WESTCOTT, LLC



Brandy Westcott Garcia, CPA
Member

December 15, 2010